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No. 80-508

In the Supreme Court of the United States

October Term, 1980

JAMES E. NICOLETTE, JOHN J. PETITTO, RONALD D. SIRK, WESTMORE DENTAL ARTS, P.C., and WESTMORELAND DENTAL APPLIANCES, INC.,
Petitioners

v.

THE HONORABLE ALAN N. BLOCH
and
FRANK M. DENISON, D.D.S., INC., and WILLOW BEACH LABORATORY, INC.,
Respondents

ON PETITION FOR WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT
AT NO. 80-2168

Brief For Respondents

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QUESTIONS PRESENTED

1. Must not a petition for a writ of mandamus be denied in an ordinary discovery situation where the trial court acted within its power?

2. Must not a petition for a writ of mandamus be denied where the trial court did not abuse its discretion?

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STATUTE AND RULES INVOLVED

Title 28, United States Code, Section 1651 (a):

> "...[A]ll courts established by Act of Congress may issue all writs necessary or appropriate in aid of their respective jurisdictions and agreeable to the usages and principles of law."

Rule 26 (c), Federal Rules of Civil Procedure:

> "Protective Orders. Upon motion by a party ... and for good cause shown, the court in which the action is pending ... may make any order which justice requires to protect a party or person from annoyance, embarrassment, oppression, or undue burden or expense, including one or more of the following: ... (7) that a trade secret or other confidential research, development, or commercial information not be disclosed or be disclosed only in a designated way; ..."

Rule 34 (a), Federal Rules of Civil Procedure:

> "Scope. Any party may serve on any other party a request ... (2) to permit entry upon designated land or other property in the possession or control of the party upon whom the request is served for the purpose of inspection and ... photographing ... the property or any designated object or operation thereon, within the scope of Rule 26 (b)."

COUNTER STATEMENT OF CASE

Civil Action No. 80-842M, now pending in the United States District Court for the Western District of Pennsylvania, was filed on June 20, 1980. The case has been assigned to the Honorable Alan N. Bloch, a respondent herein. Jurisdiction of the case is founded upon diversity of citizenship, pursuant to 28 U.S.C. §1332.

Plaintiffs in the case, respondents herein, are Frank M. Denison, D.D.S., Inc. ("FMD, Inc."), a West Virginia professional corporation, and Willow Beach Laboratory, Inc. ("Willow Beach"). The stock of FMD, Inc. is owned by Frank M. Denison, D.D.S. ("Dr. Denison"), who operates the corporation as a dental clinic in Clarksburg, West Virginia. FMD, Inc. owns two-thirds of the stock of Willow Beach, a dental laboratory which is operated in conjunction with the clinic. (FMD, Inc. and Willow Beach are herein designated "plaintiffs".)

The complaint sets forth that Dr. Hoyt L. Eagerton, Jr. ("Dr. Eagerton"), a dentist in Florence, South Carolina, helped to develop and owns a proprietary, confidential system for fitting and producing dentures on a low cost, high volume basis in a single day, whereas conventional techniques are much more expensive, and take many fittings and several days or weeks to complete. Dr. Eagerton's system utilizes a clinic, in which patients are examined and dentures fitted, and an integrated laboratory, not open to public view, in which the dentures are manufactured. Pursuant to contracts, Dr. Eagerton acts as a consultant to plaintiffs FMD, Inc. and Willow Beach, has provided them with his trade secret, and has trained their personnel in its operation. FMD, Inc. and Willow Beach have been in successful operation since January, 1979, and have paid Dr. Eagerton substantial royalties for the use of his system.

From September through December, 1979, defendant James E. Nicolette, D.D.S. ("Dr. Nicolette"), of Mt. Pleasant, Pennsylvania, engaged in negotiations with Drs. Denison and Eagerton to acquire the right to use Dr. Eagerton's system. When those negotiations collapsed, Dr. Nicolette solicited defendant John J. Petitto ("Petitto"), then the laboratory supervisor for Willow Beach, to design and set up a dental clinic and laboratory similar or identical to plaintiffs' operation. Petitto signed an employment contract with defendants dated January 26, 1980, and two weeks later, on February 8,

1980, terminated his employment with plaintiffs. Defendants' professional corporation is known as Westmore Dental Arts, P.C. ("Westmore"), and the integrated laboratory is designated Westmoreland Dental Appliances, Inc. t/d/b/a Fay-West Denture Service ("Fay-West"), a Pennsylvania corporation.

On May 15, 1980 defendants Westmore and Fay-West opened a low cost, high volume clinic and laboratory for fitting and manufacturing dentures in one day, all in direct competition with FMD, Inc. and Willow Beach. Discovery in the case to date has revealed that, at the time Westmore and Fay-West commenced operations, five of the ten dental technicians employed in their laboratory, including defendants Petitto and Ronald D. Sirk ("Sirk"), were former employees of plaintiffs. All of them, except Petitto, had just terminated their employment by Willow Beach between April 3, 1980 and May 14, 1980. (Dr. Nicolette, Petitto, Sirk, Westmore, and Fay-West are herein designated "defendants".)

The complaint, in six counts, claims misappropriation of trade secrets, unfair competition, conspiracy to misappropriate trade secrets and to injure or destroy plaintiffs' business and, as to Petitto and Sirk, breach of fiduciary duties and breach of contract. Defendants have filed a motion to dismiss but have not yet answered the complaint.

Simultaneously with the filing of their complaint, plaintiffs filed a motion for a preliminary injunction and, in aid of that motion, an *ex parte* motion requesting expedited discovery within ten days, including permission to inspect and photograph defendants' premises and the operations and procedures conducted there. The motion was granted the same day, June 20, 1980. Defendants initially agreed that the inspection could go forward, but, on July 8, 1980, nearly three weeks later, defendants moved for a protective order. To prevent the disruption of defendants' business they requested that only defen-

dants' physical premises be inspected, that the number of plaintiffs' representatives performing the inspection be limited and, for no stated reason, that no officer, director or employee of plaintiffs be permitted on defendants' premises.

At a hearing held on July 10, 1980, Respondent, the Honorable Alan N. Bloch, United States District Judge for the Western District of Pennsylvania, ruled that the inspection could proceed, subject to certain conditions to minimize the disturbance of defendants' operations. Specifically, so as not to inconvenience any of defendants' patients, plaintiffs were directed to provide a patient for whom defendants would fit and manufacture dentures during the inspection. With respect to defendants' request that no employee of plaintiffs be present during the inspection, defendants argued only that there was ill will between Drs. Denison and Nicolette. Finding that argument unpersuasive, Judge Bloch decided:

> "And I am going to allow Dr. Denison to be present, as I would allow your [defendants'] doctor to be present during the examination of their [plaintiffs'] process.
>
> "I will assume that everybody will control their likes and dislikes of one another and act as gentlemen in this matter."

The inspection was ordered to occur during the week of July 14, 1980. After twice scheduling and then cancelling the inspection of their premises, on July 30, 1980, three weeks after Judge Bloch's Order, defendants moved for reconsideration of the July 10 Order. In that motion, defendants newly asserted that the inspection would reveal an alleged trade secret which defendants would eventually plead in their answer. They suggested that an impartial expert be appointed to perform the inspection instead of Dr. Denison. Defendants submitted no affidavit or other proof of any sort that Dr. Nicolette possesses any trade secret, nor any explanation of why, if he does, he was

negotiating with Drs. Eagerton and Denison to use theirs, nor why defendants found it necessary to hire five of plaintiffs' former employees.

Defendants did not request at that time, and to this day have never requested, a protective order to restrict the uses plaintiffs might make of any information they learn through their inspection.

By Order dated August 5, 1980, Judge Bloch denied defendants' motion for reconsideration, ruling, again, that Dr. Denison "is his own best expert". As to the proposed trade secret defense to the trade secret complaint, Judge Bloch held:

> "To say that trade secrets may be discovered is not to say, however, that they are not entitled to any protection. Frequently they are revealed only after a protective order has been entered limiting their use to the litigation then pending and prohibiting their use for commercial or business purposes. *Defendants have not requested such an order, however.* Their first concern is to prevent Dr. Denison from observing defendants' operations. They hope to prevent Dr. Denison from learning the defendants' trade secret through discovery in this lawsuit." (Emphasis added.)

Judge Bloch rejected defendants' arguments on the ground that it is inevitable that the methods used both by plaintiffs and defendants to fit and manufacture dentures will be revealed in this case since it involves the claim of misappropriated trade secrets. Balancing the interests involved, Judge Bloch concluded:

> "In these circumstances, defendants' admittedly legitimate interest in protecting their trade secret must bow to plaintiffs' right and the Court's duty to discover the full truth of the facts involved in this case."

This Order not being otherwise appealable, on August 14, 1980 defendants filed a petition for writ of mandamus with the

United States Court of Appeals for the Third Circuit. The petition was denied by per curiam Order dated August 25, 1980, without plaintiffs having been requested to submit a response or a brief.

Defendants now request this Court to review the denial of their petition for writ of mandamus by the United States Court of Appeals for the Third Circuit.

SUMMARY OF ARGUMENT

The extraordinary remedy of a writ of mandamus is available only in such exceptional circumstances as when the lower court exceeds its power and authority. It does not lie where the determination was a matter of the lower court's discretion, no matter how that discretion may have been exercised.

The determination of the trial court on the facts of this case was not only within the discretion of that court but a sound and proper exercise of that discretion. Hence, the discretion of the appellate court in not granting the writ of mandamus should be conclusive.

REASONS FOR DENYING THE WRIT

1. The Court of Appeals' decision not to issue a writ of mandamus is consistent with decisions of this Court, and the limitations imposed on the issuance of such writs.

The recent decisions of this Court in mandamus cases support enthusiastically the Court of Appeals' refusal to issue a writ of mandamus in this matter. Mandamus, a drastic remedy, is appropriate only in extraordinary situations. *Kerr v. United States District Court for the Northern District of California,* 426 U.S. 394, 402 (1976); *Will v. United States,* 389 U.S. 90, 95 (1967); *Bankers Life & Casualty Co. v. Holland,* 346 U.S. 379, 382-385 (1953); *Ex parte Fahey,* 332 U.S. 258, 259 (1947). "...[O]nly exceptional circumstances amounting to a judicial

'usurpation of power' will justify the invocation of this extraordinary remedy." *Will v. United States, supra,* at 95. *See Kerr v. United States District Court for the Northern District of California, supra,* at 402; *DeBeers Consolidated Mines, Ltd. v. United States,* 325 U.S. 212, 217 (1945).

The most important policy consideration that dictates the disfavoring of mandamus is the need to promote the fair and prompt administration of justice by discouraging piecemeal litigation. Thus appellate review is to be postponed until after final judgment by the trial court. *Kerr v. United States District Court for the Northern District of California, supra,* at 403; *Will v. United States, supra,* at 96; *Parr v. United States,* 351 U.S. 513, 520-521 (1956). The wisdom of this policy is amply illustrated by the case at bar. On June 20, 1980 plaintiffs filed a motion for a preliminary injunction to halt defendants' use of plaintiffs' trade secret. The same day plaintiffs obtained an order permitting the inspection of defendants' premises and operations within ten days. Now, some four months later, that inspection has still not occurred, due to defendants' consistent delaying tactics. First they moved for a protective order in the District Court, and, when they lost, for reconsideration of the decision. When that effort also failed, defendants, rather than submit to the inspection directed by the Court, filed a petition for mandamus in the Court of Appeals. For a third time defendants were denied. Now defendants have applied to the Supreme Court of the United States on this incidental discovery matter, before even so much as filing an answer to the complaint. Meanwhile, defendants continue to operate their business, using plaintiffs' trade secret and plaintiffs' former employees. Defendants have already had so many bites of the apple, only the core remains.

As to the law in this case, its core is likewise apparent. Whether to issue a writ of mandamus is a discretionary decision of the court to which the petition for the writ is addressed.

Kerr v. United States District Court for the Northern District of California, supra, at 403; *Schlagenhauf v. Holder,* 379 U.S. 104, 111 n.8 (1964); *see LaBuy v. Howes Leather Co.,* 352 U.S. 249, 260 (1957); *Parr v. United States, supra,* at 520; *Roche v. Evaporated Milk Association,* 319 U.S. 21, 25 (1943).

This Court has imposed limitations upon the discretion of courts of appeals to issue writs of mandamus. One such limitation is that a party requesting the writ must establish its right to issuance as being "clear and indisputable." *Will v. Calvert Fire Insurance Co.,* 437 U.S. 655, 662 (1978); *Kerr v. United States District Court for the Northern District of California, supra,* at 403; *Will v. United States, supra,* at 96; *Bankers Life & Casualty Co. v. Holland, supra,* at 384; *United States v. Duell,* 172 U.S. 576, 582 (1899). And,

> "[w]here a matter is committed to the discretion of a district court, it cannot be said that a litigant's right to a particular result is 'clear and indisputable.'" *Will v. Calvert Fire Insurance Co., supra,* at 665-666.

It remains, therefore, only to determine whether it was within the District Court's power, *i.e.,* committed to its discretion, to order that Dr. Denison would be permitted to inspect defendants' premises and techniques.

Rule 34, Fed. R. Civ. P., provides for the discovery device of a party to litigation, or his representative, entering upon designated property under the control of another party, for the purposes of inspecting and photographing the property or any object or operation thereon. In 1970 Rule 34 was amended to eliminate the requirement that the party seeking to utilize this discovery device must demonstrate "good cause." 4A MOORE'S FEDERAL PRACTICE ¶34.01 [7] (2d ed. 1980); 8 Wright & Miller, FEDERAL PRACTICE AND PROCEDURE: CIVIL §2205, at 594, 606 (1970). Therefore, it was clearly within the District Court's power to order that Dr. Denison be permitted to inspect defendants' clinic, laboratory and methods of operation.

Rule 26(c), Fed. R. Civ. P., provides that upon motion, and upon demonstration of "good cause", a court may issue orders to protect a party from whom discovery is sought from annoyance, oppression, or undue burden, including orders that the discovery not be had, that the discovery occur only under specified terms and conditions, or that a trade secret or other confidential information not be disclosed or be disclosed only in a designated manner. But the question whether a protective order should issue, and its terms, is a matter committed to the discretion of the district court. *See, e.g., Keyes v. Lenoir Rhyne College,* 552 F.2d 579, 581 (4th Cir.), *cert. denied,* 434 U.S. 904 (1977); *Rodgers v. United States Steel Corp.,* 536 F.2d 1001, 1006 n. 12 (3rd Cir. 1976); *Galella v. Onassis,* 487 F.2d 986, 997 (2d Cir. 1973); *General Dynamics Corp. v. Selb Manufacturing Co.,* 481 F.2d 1204, 1212 (8th Cir.), *cert. denied,* 414 U.S. 1162 (1973); *Chemical & Industrial Corp. v. Druffel,* 301 F.2d 126, 129 (6th Cir. 1962); *Allen v. First National Bank of Atlanta,* 169 F.2d 221, 224 (5th Cir. 1948); 4 MOORE'S FEDERAL PRACTICE ¶26.67, at 26-487 (2d ed. 1979); 8 Wright & Miller, FEDERAL PRACTICE & PROCEDURE: CIVIL §2036 (1970); *see also Federal Open Market Committee v. Merrill,* 443 U.S. 340, 362 (1979); *Herbert v. Lando,* 441 U.S. 153, 177 (1979).

There is no question in this case with respect to the power of the District Court to order plaintiffs' inspection of defendants' premises and processes with Dr. Denison present. The only question is whether the District Court wisely exercised its discretion to make that order. Thus, it was not within the power of the Court of Appeals to issue a writ of mandamus to reverse that Order. Indeed, had the District Court's Order been an abuse of its discretion, nowhere even alleged by defendants, still mandamus would not lie to review such a nonappealable order. *Will v. Calvert Fire Insurance Co., supra,* at 665 n.7.

Defendants apparently claim, relying upon *Schlagenhauf v. Holder, supra,* that mandamus is proper in this case because

a novel question under the Federal Rules of Civil Procedure is involved. The questions presented in *Schlagenhauf* were whether the court of appeals had the power to issue the writ in that case and, if so, whether the district court properly ordered a mental and physical examination of a defendant. This Court answered the first question affirmatively because of the contention that the district court *lacked the power* under Rule 35, Fed. R. Civ. P., to order a defendant to be examined. Only then did this Court, in the language quoted by defendants in their petition herein, conclude that it should determine the second issue on the merits, rather than remand to the court of appeals for such determination, because the novel question presented concerned the construction and application of the Federal Rules of Civil Procedure. It is significant that in *Will v. United States, supra,* 389 U.S., at 104 n.14, this Court wrote concerning *Schlagenhauf:*

> "... The Court there did note that the various questions concerning the construction of Rule 35 were new and substantial, but it rested the existence of mandamus jurisdiction squarely on the fact that there was *real doubt whether the District Court had any power at all* to order a defendant to submit to a physical examination." (Emphasis added.)

No such question exists in the present case, and there is no reason for the Supreme Court of the United States to consider any further review of the matter.

2. The Court of Appeals' decision is consistent with decisions of other courts of appeals and required by the facts of the case.

The Court of Appeals denied defendants' petition for writ of mandamus without opinion and without requesting a brief from plaintiffs. As demonstrated above, it would have been an abuse of the Court of Appeals' discretion to have issued a writ of mandamus in the circumstances of this case. In the alterna-

tive, the Court of Appeals was likewise correct if its Order is viewed as a holding that the District Court did not abuse its discretion.

A protective order should issue only upon a showing of "good cause" therefor. Rule 26(c), Fed. R. Civ. P.; *Parsons v. General Motors Corp.*, 85 F.R.D. 724 (N.D. Ga. 1980); *Reliance Insurance Co. v. Barron's*, 428 F.Supp. 200, 202-204 (S.D.N.Y. 1977). Defendants' sole oblique assertion that defendants possess a trade secret is an unsworn allegation in defendants' motion for reconsideration, to the effect that the answer which defendants have not yet filed will contain such a claim. *See Rosenblatt v. Northwest Airlines, Inc.*, 54 F.R.D. 21, 23 (S.D.N.Y. 1971); *Paul v. Sinnott*, 217 F. Supp. 84, 85 (W.D.Pa. 1963); *Sacks v. Frank H. Lee Co.*, 18 F.R.D. 500 (S.D.N.Y. 1955).

When a trade secret will be revealed by discovery, a court must weigh the potential harm to the party making disclosure against the other party's right to prove his case and the public's interest in having the truth determined in every litigated case. *See Natta v. Zletz*, 405 F.2d 99, 100 (7th Cir. 1968), *cert. denied*, 395 U.S. 909 (1969); *Covey Oil Co. v. Continental Oil Co.*, 340 F.2d 993, 999 (10th Cir.), *cert. denied*, 380 U.S. 964 (1965); *Hartley Pen Co. v. United States District Court for the Southern District of California*, 287 F.2d 324, 328 (9th Cir. 1961); *Johnson Foils, Inc. v. Huyck Corp.*, 61 F.R.D. 405, 410 (N.D.N.Y. 1973). In the case at bar, as the District Court recognized, there is no way plaintiffs can establish their case without analyzing virtually every aspect of defendants' operations.

Defendants argue that a protective order preventing Dr. Denison from viewing defendants' premises and operating procedures is necessary to prevent Dr. Denison from acquiring defendants' alleged trade secret free of restrictions on its use. However, defendants have never requested that any restric-

tions be imposed upon the uses Dr. Denison might make of information he acquires by the ordered inspection. Further, even if the inspection be restricted to an independent expert, Dr. Denison inevitably will learn every detail of defendants' method of fitting and manufacturing dentures either at the hearing on the preliminary injuction motion or at the trial on the merits. To bar Dr. Denison from the inspection itself would only deprive plaintiffs of Dr. Denison's expertise in preparing for those stages of this litigation. Finally, it is clear that plaintiffs have no need, nor desire apart from this litigation, to acquire any trade secret that may be possessed by defendants. It is undisputed that plaintiffs have successfully operated a business of fitting and manufacturing dentures in one day on a low cost, high volume basis since January, 1979. Plaintiffs have not hired any of defendants' former employees. It is similarly undisputed that defendants have been engaged in the same business only since May 15, 1980 and have found it necessary to employ in their laboratory five former employees of plaintiffs.

Under such facts, the cases cited by defendants to support a supposed conflict between the Court of Appeals' decision in this case and other courts of appeals are simply inapposite.

Chemical & Industrial Corp. v. Druffel, supra, involved a petition for writ of mandamus to vacate orders compelling answers to interrogatories and questions propounded during depositions. The court of appeals declined to issue the writ and permitted the order requiring discovery to stand, quoting the Supreme Court:

> "In the present case the district court has acted within its jurisdiction and has rendered a decision which, even if erroneous, involved no abuse of judicial power." 301 F.2d, at 129.

The Sixth Circuit there declined, as did the Third Circuit here, to substitute its judgment for that of the trial judge.

Covey Oil Co. v. Continental Oil Co., supra, was an appeal by non-parties to an antitrust action from a district court's refusal to quash subpoenas. The court of appeals affirmed the district court's denial of the motion to quash, including the limitations the lower court imposed upon dissemination of this information. Once again, the "sound exercise of discretion" of the trial court was upheld. 340 F.2d, at 999. In the instant case the trial court determined, in its sound discretion, that no independent expert could be as qualified as Dr. Denison to determine if defendants are using his trade secret and that Dr. Denison "is his own best expert."

In *United States v. United Fruit Co.,* 410 F.2d 553 (5th Cir.), *cert. denied,* 396 U.S. 820 (1969), the district court had entered a protective order preventing non-parties to that government antitrust action from inspecting, without a court order, documents filed in the case. A competitor of the antitrust defendant sought an order allowing it to inspect those documents for its own admittedly competitive purposes. The district court denied the motion and the court of appeals affirmed, concluding that "the district court unquestionably had authority to enter an order prohibiting revelation of the confidential information on file in this case." *Id.,* at 556.

Natta v. Zletz, supra, involved an ancillary proceeding to a United States Patent Office interference matter. In that ancillary action, the Seventh Circuit reversed an unduly restrictive trial court order as being "not in accord with the broad type of discovery and duty of full disclosure contemplated by the patent laws." 405 F.2d, at 100. That the documents were to be disclosed only to counsel did not appear to cause a problem since there was no claim that counsel needed the assistance of his client to interpret or utilize the allegedly confidential information.

Finally, in *Olympic Refining Co. v. Carter,* 332 F.2d 260 (9th Cir.), *cert. denied,* 379 U.S. 900 (1964), mandamus was

sought by the plaintiff in a private antitrust action to direct a district judge to vacate protective orders entered in a government antitrust suit terminated three years before. In the spirit of liberal discovery sought by plaintiffs herein, the court of appeals granted the writ, thereby granting the private antitrust plaintiff access to the documents from the earlier case, subject to such reasonable restrictions as the district court might require to prevent unnecessary disclosure of confidential business information. *Id.*, at 266.

Thus it can readily be seen that none of the five cases cited by defendants are inconsistent with the decision of the Third Circuit herein. Three of the cases affirmed the discretion of the trial judge to make the initial order, and the other two held that the lower court had not permitted the liberal discovery required by the pertinent rules. The Third Circuit properly determined that the discovery order issued by Judge Bloch was within his discretion and was proper. There was no need for a writ of mandamus, and there is no need for a writ of certiorari.

CONCLUSION

The determination of the trial judge was within his power; thus issuance of a writ of mandamus would have been impermissible by the appellate court. The determination of the trial judge was within his sound discretion; thus denial of a writ of mandamus by the appellate court was within *its* sound discretion. There being no conflict among the circuits and no claim of a constitutional issue, there is no reason for this Court to grant certiorari.

Respectfully submitted,

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